

Message Text

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SUBJ: VENEZUELAN OIL OUTPUT IS NEAR CAPACITY

SUMMARY: WITH REFERENCE RAPIDLY GROWING U.S. OIL IMPORT DEMAND AND POSSIBLE SHORTAGE HEATING OIL THIS WINTER AND TO PRESS SPECULATION THAT VENEZUELA MIGHT BE ABLE SUPPLY INCREASED QUANTITIES OF PETROLEUM,

IT SHOULD BE NOTED THAT VENEZUELAN OIL INDUSTRY IS NOW OPERATING AT VERY CLOSE TO CAPACITY. THERE IS LITTLE LIKELIHOOD THAT A SIGNIFICANT EXPANSION IN CAPACITY COULD BE ACHIEVED PRIOR TO WINTER HEATING SEASON, EVEN WITH MORE REMUNERATIVE PRICES NOW PREVAILING. EASING SULFUR RESTRICTIONS WOULD PERMIT SOME INCREASE IN OUTPUT OF HEATING OIL , BUT THERE WOULD BE CORRESPONDING REDUCTION IN VOLUME OF RESIDUAL FUEL OIL AVAILABLE FOR EXPORT. (END SUMMARY)

1. VENEZUELAN OIL PRODUCTION IS NOW RUNNING AT JUST OVER 3.4 MILLION BARRELS PER DAY. EXPERT SOURCES IN HYDROCARBONS MINISTRY AND TWO LARGEST COMPANIES ESTIMATE THAT THIS IS VERY CLOSE TO CURRENT PRODUCTION CAPACITY FOR INDUSTRY. CAPACITY AT YEAR END 1972 WAS ESTIMATED BY MINISTRY TO BE 3.529 MILLION B/D, BUT HAS DECLINED SINCE.

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2. CREOLE EXPERTS IN CHARGE OF CURRENT AND LONG RANGE PLANNING

ESTIMATE THAT WITH STRONG EFFORT INDUSTRY COULD EXPAND PRODUCTION POTENTIAL BY MAXIMUM OF 60,000 B/D BUT DRILLING NECESSARY WELLS WOULD REQUIRE SIX TO EIGHT MONTHS. ADDITIONAL OUTPUT WOULD BE HEAVY HIGH-SULPHUR OIL. UP TO NOW THIS OIL HAS NOT BEEN ECONOMICALLY FEASIBLE TO PRODUCE, BUT, WITH REALIZED PRICES RISING FASTER THAN TAXES, WELLS THAT WERE FORMERLY SEEN AS SUB-MARGINAL CAN NOW BE CONSIDERED. ON THE OTHER HAND, THERE IS UNCERTAINTY AS TO WHAT COSTS SHOULD BE PROJECTED FOR ANY NEW WELLS, WITH TAX REFERENCE VALUES BEING INCREASED MONTHLY.

3. THUS, OVER THE SHORT TO MEDIUM TERM, THE U.S. CANNOT EXPECT MUCH HELP FROM VENEZUELA IN MEETING ITS ENERGY PROBLEMS. OVER A LONGER PERIOD (3-5 YEARS), VENEZUELA IS BELIEVED TO HAVE POTENTIAL FOR VERY SUBSTANTIAL INCREASE IN OUTPUT THROUGH DEVELOPING PROMISING AREAS OUTSIDE OF PRESENT CONCESSIONS -- ORINOCO BELT AND OFFSHORE CONTINENTAL SHELF. BUT, AS DEPARTMENT AWARE, THIS WOULD REQUIRE GOVERNMENT TO GOVERNMENT NEGOTIATIONS TO ESTABLISH AND GUARANTEE TERMS AND CONDITIONS UNDER WHICH REQUIRED INVESTMENTS COULD TAKE PLACE. NEGOTIATIONS COULD NOT BEGIN, OF COURSE, UNTIL AFTER VENEZUELAN ELECTIONS AND THEN, ONLY IF NECESSARY CONDITIONS EXIST IN BOTH COUNTRIES AND IN WORLD OIL MARKETS.

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